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Chapter 5

Planning and Decision Making

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Learning Objectives

LO 1 Summarize the basic steps in the planning process.

LO 2 Discuss how strategic planning should be integrated with tactical and operational planning.

LO 3 Describe the strategic management process and the importance of SWOT analysis in strategy formulation.

LO 4 Analyze how companies can achieve competitive advantage through business strategy.

LO 5 Identify the keys to effective strategy implementation.

LO 6 Explain how to make effective decisions as a

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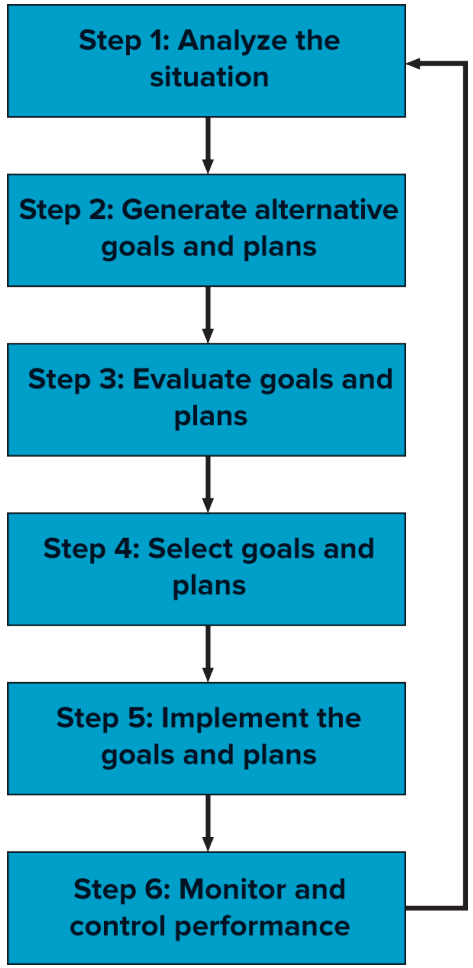
The Planning Process

Planning

- Conscious, systematic process of making decisions about goals and activities that an individual, group, work unit, or organization will pursue in the future.
- Process is a cycle.

Exhibit 5.1 Formal planning steps


Step 1: Analyze the situation
Step 2: Generate alternative goals and plans
Step 3: Evaluate goals and plans
Step 4: Select goals and plans
Step 5: Implement the goals and plans
Step 6: Monitor and control performance

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Step 1: Analyze the Situation

Situational Analysis

- A process planners use, within time and resource constraints, to gather, interpret, and summarize all information relevant to the planning issue under consideration.
- Focuses on internal forces and examines external influences.
- Analysis determines if planners proceed to the next step.

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Step 2: Generate Alternative Goals and Plans

Generate Alternative Goals and Plans

Should stress creativity and encourage managers and employees to think broadly.

Goals are targets or ends that a manager wants to reach.

Plans are actions or means the manager intends to use to achieve goals.

- Single-use, standing, and contingency plans.

Potential **scenario** is a narrative that describes a particular set of future conditions.

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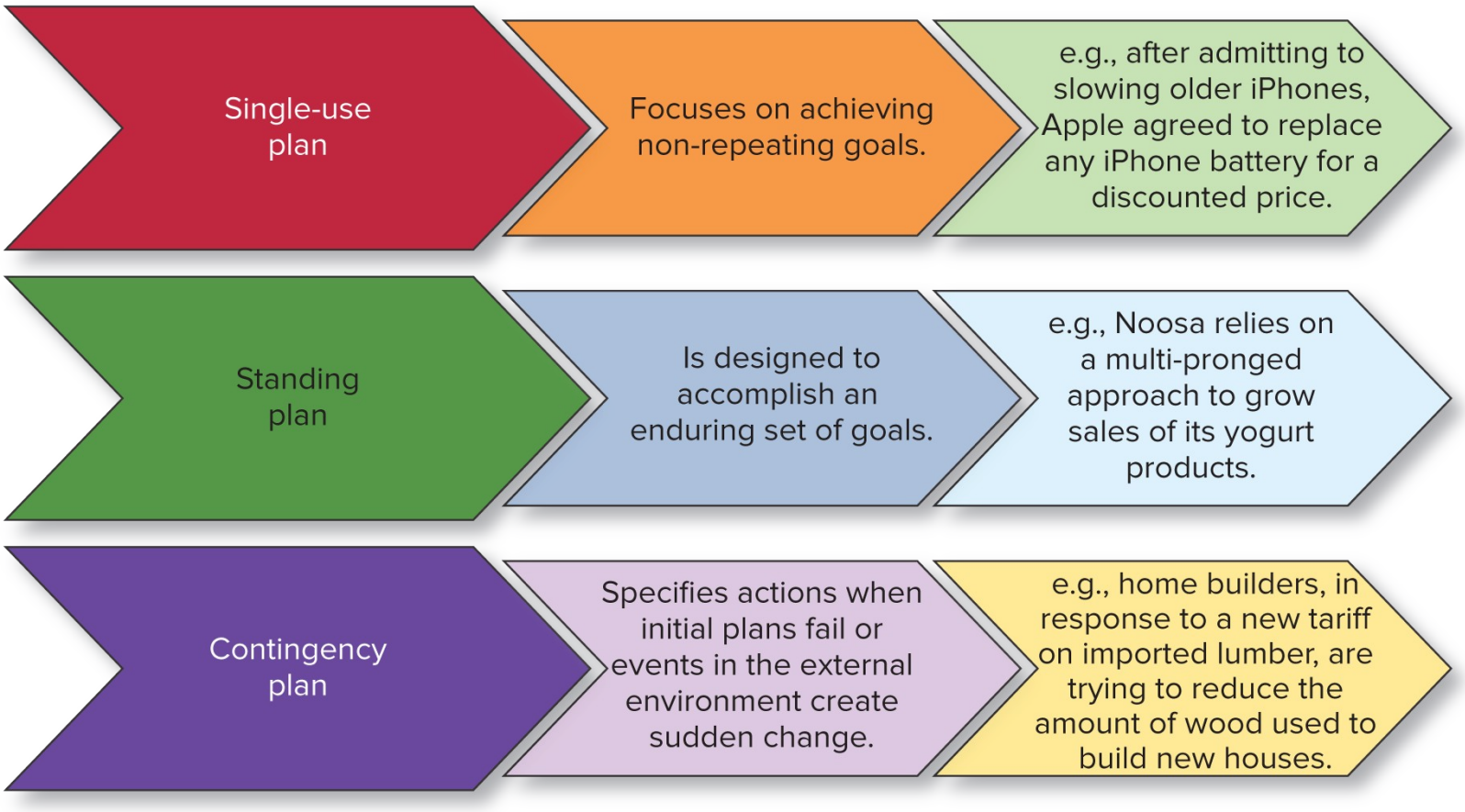
Exhibit 5.2 Three Common Plans Used by Organizations


Single-use plan
Focuses on achieving non-repeating goals.
e.g., after admitting to slowing older iPhones, Apple agreed to replace any iPhone battery for a discounted price.
Standing plan
Is designed to accomplish an enduring set of goals.
e.g., Noosa relies on a multi-pronged approach to grow sales of its yogurt products.
Contingency plan
Specifies actions when initial plans fail or events in the external environment create sudden change.
e.g., home builders, in response to a new tariff on imported lumber, are trying to reduce the amount of wood used to build new houses.

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Sources: M. Snider, "Apple Said to Replace iPhone Batteries at Discount Regardless of Diagnostic Test," *USA Today*, January 2,2018, www.usatoday.com; J. Skerrit, "Timber Tariffs Are Hammering U.S. Builders," *Bloomberg Businessweek*, March 12, 2018, www.bloomberg.com; and J. Feifer, "Landing on the Wrong Shelves," *Entrepreneur* 46, no. 1 (January–February 2018), p. 20.

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Step 3: Evaluate Goals and Plans

Evaluation

Managers will evaluate the advantages, disadvantages, and potential effects of each alternative goal and plan.

- They must prioritize those goals and even eliminate some.

Managers must consider carefully the implications of alternative plans for meeting high-priority goals.

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Step 4: Select Goals and Plans

Selection

- Managers select the most appropriate and feasible alternative.
- Evaluation process identifies priorities and trade-offs among the goals and plans.

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Contingency Plan

In an effort to keep its employees and customers safe during the COVID-19 pandemic, Costco required everyone in their stores to wear protective face coverings.

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Step 5: Implement the Goals and Plans

Implementation

- Managers and employees must understand the plan, have the resources to implement it, and be motivated to do so.
- Successful implementation requires a plan to be linked to other systems in the organization, particularly budget and reward systems.

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Step 6: Monitor and Control Performance

Monitoring and Controlling

- Essential to know if plan is working and the goal is feasible.
- Managers must continually monitor the actual performance of their work units against the units' goals and plans.
- Managers also need to develop control systems to measure that performance and allow them to take corrective action when plans are implemented improperly or when the situation changes.

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Levels of Planning

Managers Plan at All Levels

- Top-level.
- Middle-level.
- Frontline.
- Team leaders.

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Strategic Planning Sets Long-Term Directions

Strategic Planning

- Making decisions about the organization's long-term goals and strategies.
- Top-level mangers.

Strategic goals:

- Major targets or end results relating to the organization's long-term survival, value, and growth.

Strategy:

- A pattern of actions and resource allocations designed to achieve the organization's goals.

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Tactical and Operational Planning Support the Strategy

Tactical Planning

- Set of procedures for translating broad strategic goals and plans into specific goals and plans that are relevant to a distinct portion of the organization, such as a functional area like marketing.
- Middle managers.

Operational Planning

- Process of identifying the specific procedures and processes required at lower levels of the organization.
- Frontline managers.

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Exhibit 5.3 Three Levels of Planning in Organizations

Level of planning	Who develops the plan?	How detailed is it?	How long is the plan?
Strategic	Top-level managers	Low	Long (3 to 7+ years)
Tactical	Middle managers	Medium	Medium (1 to 2 years)
Operational	Frontline managers	High	Short (less than a year)

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All Levels of Planning Should Align

Alignment

- The organization's strategic, tactical, and operational goals and plans must align.
- Strategies rely on managers' ability to set tactical and operational priorities, allocate resources, analyze market conditions, and ensure proper implementation.

Whole Foods Market's vision has guided the company's growth into one of the biggest health food store chains in the United States.

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Strategic Planning Process

Strategic Management

- A process that involves managers from all parts of the organization in the formulation and implementation of strategic goals and strategies.
- Integrates strategic planning and management into a single process.

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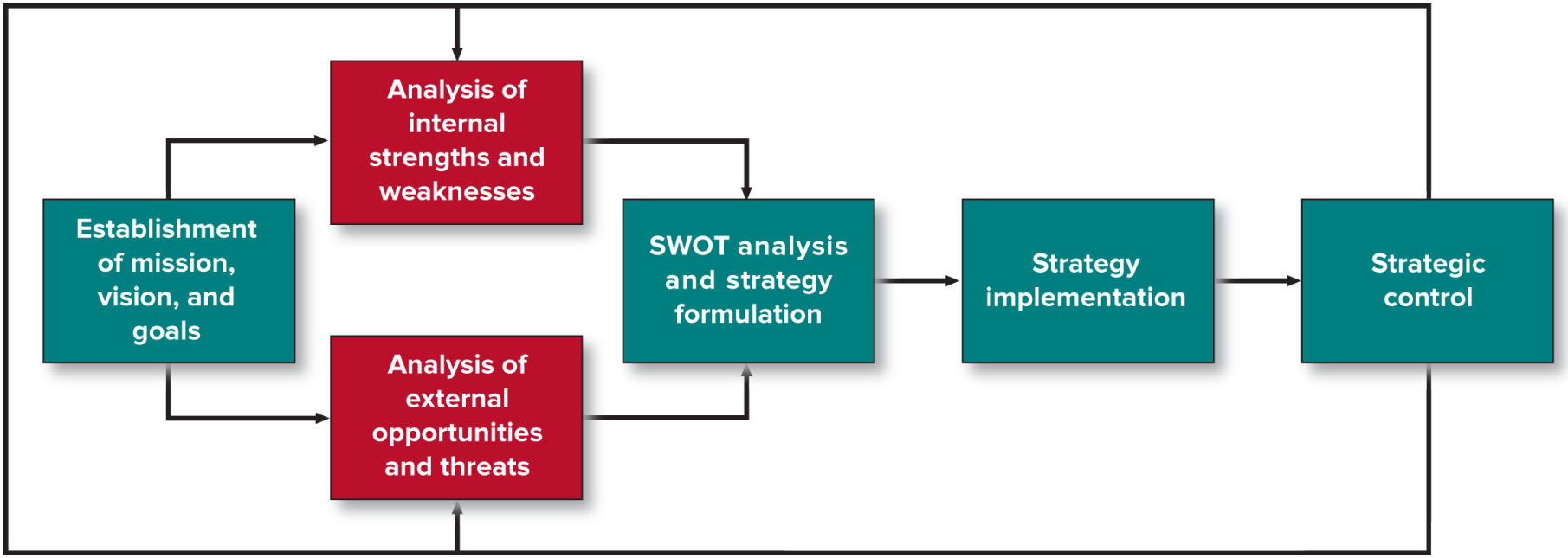
Exhibit 5.4 The Strategic Management Process


Establishment of mission, vision, and goals
Analysis of internal strengths and weaknesses
Analysis of external opportunities and threats
SWOT analysis and strategy formulation
Strategy implementation
Strategic control

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Establish a Mission, Vision, and Goals

Mission

- An organization’s basic purpose and scope of operations.

Strategic Vision

- The long-term direction and strategic intent of a company.
- Provides a perspective on where the organization is headed and what it can become.

Strategic goals evolve from the organization’s mission and vision.

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Analyze External Opportunities and Threats

Environmental Analysis

Begins with examination of industry.

Next, organizational **stakeholders** are examined.

- Groups and individuals who affect and are affected by achievement of the organization's mission, goals, and strategies.

Also includes competitor analysis, legal trends, political activity, social issues, labor and interest groups, economic conditions, and technological factors.

Identifies opportunities and threats.

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Exhibit 5.5
Elements of an Environmental Analysis

Industry growth	Growth rates for the entire industry and key market segments, and projected changes in patterns and determinants of growth.
Industry forces	Threat of new industry entrants, threat of substitutes, economic power of buyers/customers, economic power of suppliers, and internal industry rivalry.
Competitor analysis	Goals, strategies, strengths, and weaknesses of each major competitor.
Legal trends	Legislation and regulatory activities and their effects on the industry.
Political activity	The level of political activity undertaken by organizations and associations within the industry.
Social issues	Current and potential social issues and their effects on the industry.
Social interest groups	Social interest groups: consumer, environmental, and other activist groups that try to influence the industry.
Labor issues	Key labor needs, shortages, opportunities, and problems confronting the industry.
Macroeconomic conditions	Economic factors that affect supply, demand, growth, competition, and profitability within the industry.
Technological factors	Scientific or technical methods that affect the industry, particularly recent and potential innovations.

A table divided into two details of 10 elements of analysis.

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Analyze Internal Strengths and Weaknesses 1

Internal Analysis

Includes financial, human resources, marketing, operations, and other internal resources.

Resources are inputs to a system that can enhance performance.

- Tangible assets.
- Intangible assets.

Resources that are valuable, rare, inimitable, and organized are a company's **core capabilities**.

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Core Capabilities

Can you identify their core capabilities?

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Analyze Internal Strengths and Weaknesses 2

Benchmarking

- The process of assessing how well one company's basic functions and skills compare with those of another company or set of companies.
- Goal is to thoroughly understand "best practices" of other firms and to take actions to achieve better performance and lower costs.

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Conduct a SWOT Analysis and Develop Strategies 1

SWOT Analysis

A comparison of strengths, weaknesses, opportunities, and threats that helps executives formulate strategy.

- Strengths and weaknesses refer to internal resources.
- Opportunities and threats arise in the macroenvironment and competitive environment.

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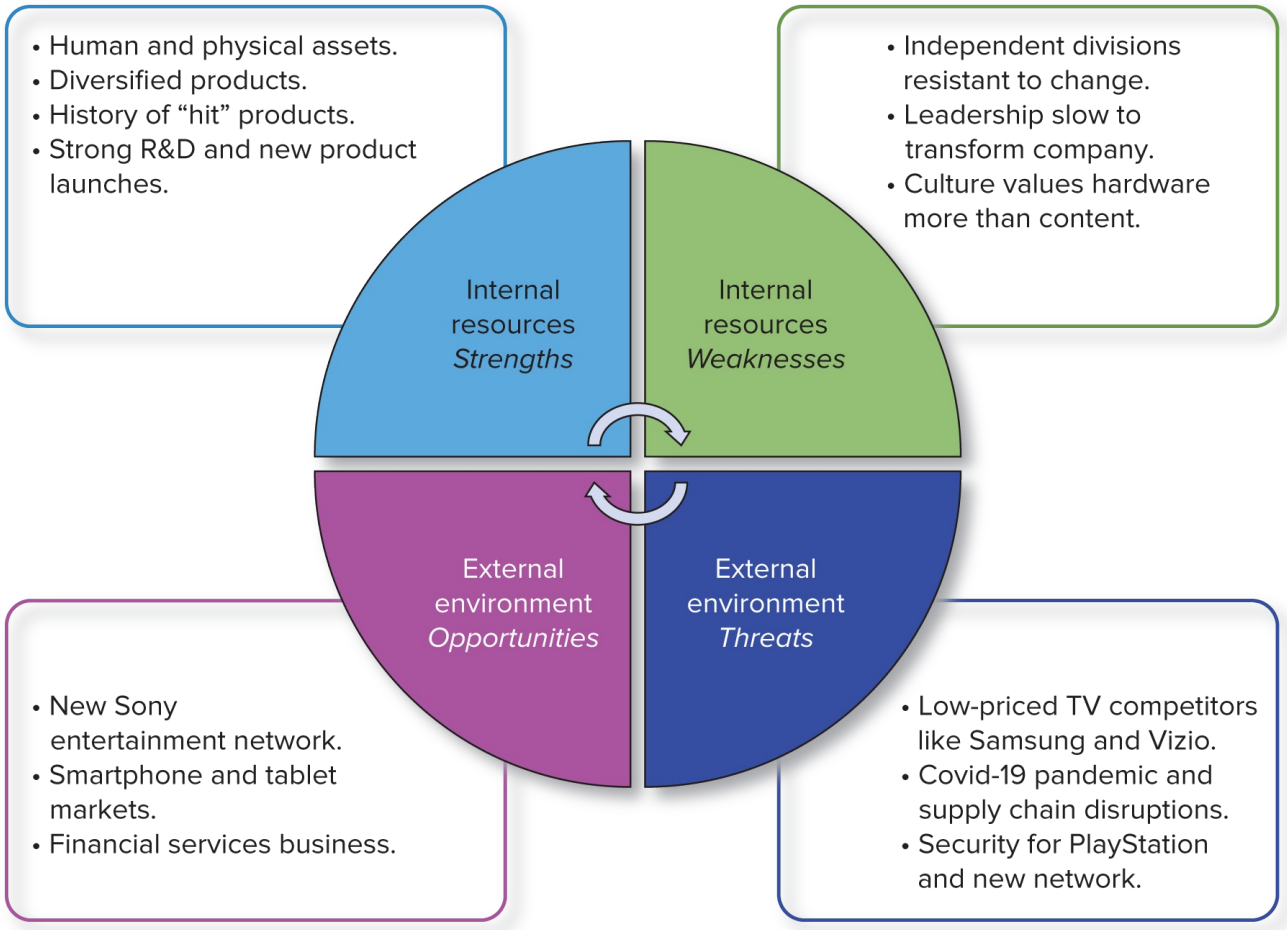
Exhibit 5.6 SWOT Analysis at Sony


• Human and physical assets.
• Diversified products.
• History of "hit" products.
• Strong R&D and new product launches.
• Independent divisions resistant to change.
• Leadership slow to transform company.
• Culture values hardware more than content.
Internal resources *Strengths*
Internal resources *Weaknesses*
External environment *Opportunities*
External environment *Threats*
• New Sony entertainment network.
• Smartphone and tablet markets.
• Financial services business.
• Low-priced TV competitors like Samsung and Vizio.
• Covid-19 pandemic and supply chain disruptions.
• Security for PlayStation and new network.

Access the text alternative for slide images.

Sources: Adapted from B. Gruley and C. Edwards, "Sony Needs a Hit," *Bloomberg Businessweek*, November 21–27, 2011,pp. 72–77; D. Bonthuys, "PlayStation 5 Sales Reach 30 Million, December 2022 Was The Biggest Month To Date For PS5," *Game Spot,* January 2, 2023.

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Conduct a SWOT Analysis and Develop Strategies 2

Corporate Strategy

Identifies set of businesses, markets, or industries in which an organization competes and the distribution of resources among those entities.

Four basic strategies:

- **Concentration**.
- **Vertical integration**.
- **Related diversification**.
- **Unrelated diversification**.

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Conduct a SWOT Analysis and Develop Strategies 3

Corporate Strategy continued

- The diversified businesses of an organization comprise its business portfolio.
- Popular technique for analyzing how a corporation manages its portfolio is the BCG matrix.

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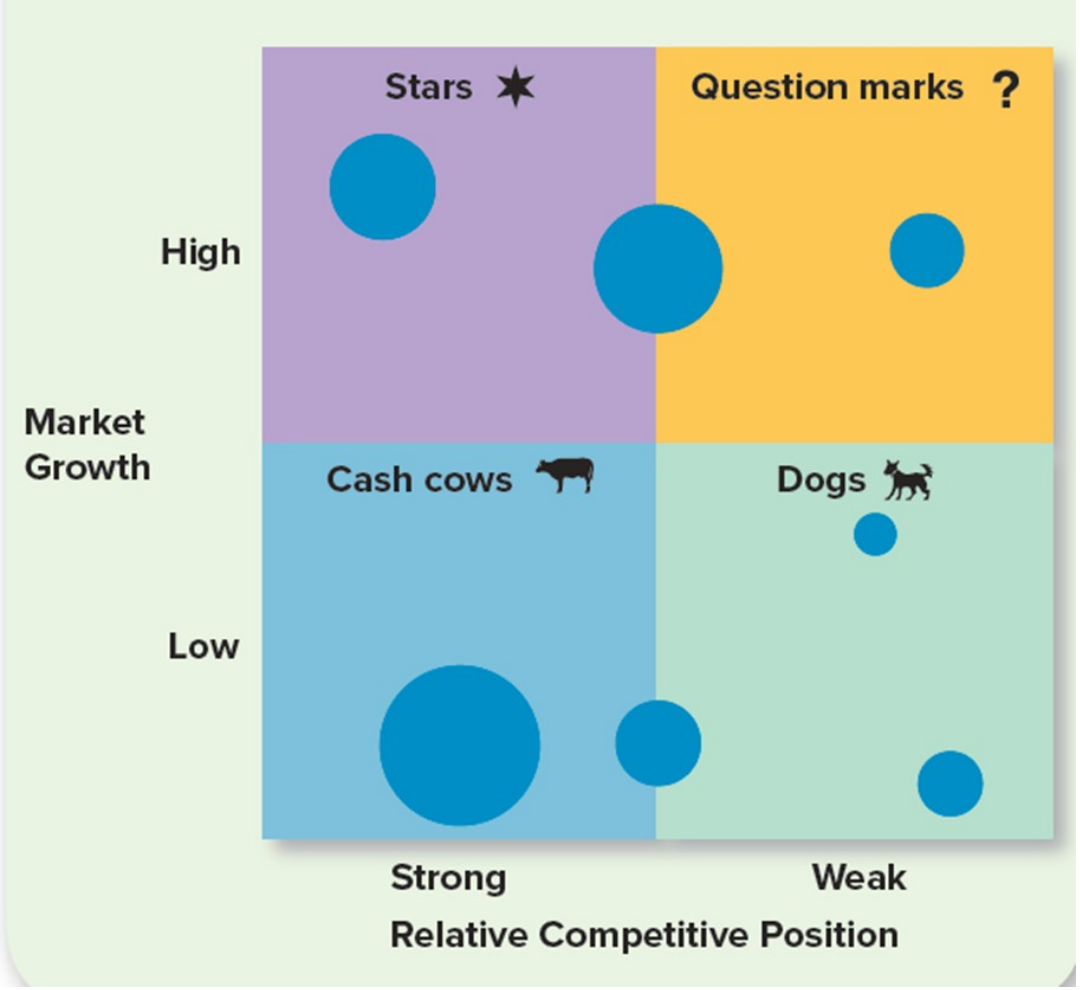
Exhibit 5.7 The BCG Matrix



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Business Strategy 1

Business Strategy

Major actions by which an organization builds and strengthens its competitive position in the marketplace.

- The most effective strategy is one that competitors are unwilling or unable to imitate.

- **Low-cost strategy**: strategy an organization uses to build competitive advantage by being efficient and offering a standard, no-frills product.
- **Differentiation**: strategy an organization uses to build competitive advantage by being unique in its industry or market segment along one or more dimensions.

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Exhibit 5.8 Advantages and disadvantages of industry leadership

Advantages	Disadvantages
First-mover advantage	Greater risks
Little or no competition	Cost of technology development
Greater efficiency	Cost of market development
Higher profit margins	Cost of customer education
Sustainability advantage	Infrastructure costs
Reputation for innovation	Cost of learning and eliminating defects
Establishment of entry barriers	Possible cannibalization of existing products
Occupation of best market niches	Blank
Opportunities to learn	Blank

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Business Strategy 2

Functional Strategy

Strategies implemented by each functional area of the organization to support the business strategy.

- Includes production, human resources, marketing, research and development, finance, and distribution.
- Functional managers develop strategies with input and approval from executives responsible for business strategy.

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Implement the Strategy 1

Implementation

- Define strategic tasks.
- Assess organization capabilities.
- Develop an implementation agenda.
- Create an implementation plan.

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Implement the Strategy 2

Strategic Control System

- A system designed to support managers in evaluating the organization's progress regarding its strategy and, when discrepancies exist, taking corrective action.
- Must encourage efficient operations while allowing flexibility.
- Control systems require performance metrics, a good information system, and people who understand how to use it.

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Managerial Decision Making 1

Managers Face Challenges

- Lack of structure.
- **Uncertainty** (**certainty** is rare).
- **Risk.**
- Conflict.

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Exhibit 5.9 Two Types of Decisions

Programmed	Nonprogrammed
Problem is frequent, repetitive, and routine, with much certainty regarding cause-and-effect relationships.	Problem is novel and unstructured, with much uncertainty regarding cause-and-effect relationships.
Decision procedure depends on policies, rules, and definite procedures.	Decision procedure needs creativity, intuition, tolerance for ambiguity, and creative problem solving.
Examples: periodic reorders of inventory; procedure for admitting patients.	Examples: diversification into new products and markets; purchase of experimental equipment; reorganization of departments.

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Risky Decision?

Created by Amazon, Echo smart speakers connect via Wi-Fi with Alexa, the company's voice-controlled intelligent personal assistant.

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Managerial Decision Making 2

Six Stages of Formal Decision Making

1. Identify and diagnose the problem.
2. Generate alternative solutions.
3. Evaluate alternatives.
4. Make the choice.
5. Implement the decision.
6. Evaluate the decision.

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Identifying and Diagnosing the Problem

Identifying the Problem

- Is there a difference between actual and planned performance?
- How can you describe the deviation?
- What is or are the cause or causes of the deviation?
- What specific goals should be met?
- Which goals are critical to success?

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Generating Alternative Solutions

Generating Alternatives

- Links problem diagnosis to the development of alternative courses of action aimed at solving the problem.
- **Ready-made solutions**.
- **Custom-made solutions**.

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Evaluating Alternatives

Evaluating Alternatives

- Is our information complete?
- Does the alternative meet our primary objective?
- What problems could we have if we implement?

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Making the Choice

Criteria for Making Decisions

Maximizing: achieving the best possible outcome.

- Greatest positive consequences and fewest negative consequences.

Satisficing: choosing an option that is acceptable, although not necessarily the best or perfect.

Optimizing: achieving the best possible balance among several goals.

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Implementing the Decision

Steps to Implementation

1. Determine how things will look when the decision is fully operational.
2. Chronologically order, perhaps with a flow diagram, the steps necessary to achieve a fully operational decision.
3. List the resources and activities required to implement each step.
4. Estimate the time needed for each step.
5. Assign responsibility for each step to specific individuals.

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Evaluating the Decision

Final Stage in Decision Making

- Setting quantifiable goals allow managers to gather objective data.
- Both positive and negative feedback is useful.
- Negative feedback:
  1. Implementation requires more time, resources, effort, or thought.
  2. The decision was not a good one.

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Human Nature Erects Barriers to Good Decisions

Good Decisions

- Better decisions result from rational processes.
- Influenced by subjective psychological biases, time pressures, and social realities.

System 1 thinking is fast, automatic, and emotional.

System 2 thinking is more thoughtful, slower, and more logical.

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Psychological Biases

Illusion of Control

- People's belief that they can influence events, even when they have no control over what will happen.

Framing Effects

- A decision bias influenced by the way in which a problem or decision alternative is phrased or presented.

Discounting the Future

- A bias weighting short-term costs and benefits more heavily than longer-term costs and benefits.

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Time Pressures and Social Realities

Time Pressures

Premium on acting quickly and keeping pace in modern business environment.

Tactics:

- Real-time information.
- Involve people more effectively and efficiently.
- Realistic view of conflict.

Social Realities

- Many decisions are made by a group rather than by an individual manager.
- Important decisions are often result of social interactions, bargaining, and politicking.

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Group Process Affects Decision Quality 1

Groups Can Help

- More information improves decisions.
- Different perspectives enhance problem solving.
- Group discussions spur thinking.
- Understanding may be greater.
- Commitment may be greater.

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Group Process Affects Decision Quality 2

Groups Can Hurt

- One person may dominate discussions and undermine the process.
- Groups may lead to satisficing.
- Groups may lead to **groupthink**.
- **Goal displacement** often occurs.

Groups can spur creative thinking, effective problem solving, and goal commitment. However, not all groups perform to their full potential.

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Groups Must Be Well Led

Effective Managers

Appropriate leadership style.

Constructive conflict.

- **Devil's advocate**.
- **Dialectic**.

Creativity.

- **Brainstorming**.

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Groups Can Drive Innovation

Innovation

Design thinking: a human-centered approach to innovation that integrates customer needs, the potential of technology, and the requirements for business success.

- Starts with direct observation of current and potential customers.
- Design teams work together to identify what people want and need.

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Group Challenge

SWOT Analysis

Develop a SWOT analysis for this college or university.

List 3 to 4 examples for each category.

- Strengths.
- Weaknesses.
- Opportunities.
- Threats.

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Chapter Review

The planning process.

Levels of planning.

Tactical and operational planning.

Strategic planning process.

Strategic management; mission, strategic vision.

SWOT analysis.

- Corporate strategy.

Business strategy.

Implement the strategy.

Managerial decision making.

Maximizing, satisficing, optimizing.

Psychological biases, time pressures, social realities.

Groups and decision making.

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